

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6912

BILL NUMBER: HB 1763

DATE PREPARED: Jan 13, 2001

BILL AMENDED:

SUBJECT: Collective Bargaining for School Employees.

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FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill allows noncertificated school employees to engage in collective bargaining. The bill provides for disciplinary procedures for noncertificated employees of a school corporation or employees of a state institution. The bill also provides certain procedural requirements before a noncertificated employee of a school corporation or an employee of a state institution may be discharged.

Effective Date: July 1, 2001.

Explanation of State Expenditures: *I. Collective Bargaining:* Collective bargaining by noncertified school employees involves two components that may impact state expenditures. First, this proposal could increase the expenses of the Indiana Education Employment Relations Board (IEERB). It is estimated that IEERB would require an additional \$80,000 per year for ad hoc staff and supplies to cover the additional effort created by this bill.

Second, this bill could significantly affect wages and fringe benefits for school employees. Wage and fringe benefit differentials resulting from collective bargaining may affect the amount of money distributed by the state to local school corporations. With respect to the potential costs of collective bargaining, various studies have been conducted in recent years attempting to estimate the effect of collective bargaining on wage, salary, and benefit levels of public employees. Most studies conclude that public sector collective bargaining differs in at least two ways from collective bargaining in the private sector:

(1) Public sector unions have a greater influence than private sector unions on employer behavior because of their ability to work within the political process. Unions, through their lobbying efforts, can influence public sector budgets and, thus, the demand for public sector employees in addition to the level of compensation (Zax and Ichniowski, 1988).

(2) Public sector union wage effects can differ significantly over time and are generally smaller than those

in the private sector but are far from negligible (Lewis, 1990).

Wage effects are usually measured through cross-sectional statistical studies where general wage levels of government employees without collective bargaining are statistically compared to collectively bargained wage levels. By controlling for other economic variables which might influence wage levels, researchers are able to arrive at an estimate of the wage differential which is attributable to collective bargaining. After the introduction of collective bargaining, these wage level differentials would not be expected to occur immediately. Rather, the differentials would accumulate from annual contract settlements which are a little higher than what would otherwise occur without collective bargaining. Thus, over time, these small percentage wage and salary improvements due to collective bargaining accumulate into a differential which, once built into the payroll base, is paid annually.

For example, if the annual average wage settlement obtained after the introduction of collective bargaining was 4.5% and the annual wage increase that would have been obtained by employees without collective bargaining was 3.5%, then the difference would be equal to 1% of the payroll level. Over time, a series of contract settlements, over and above what would have occurred without collective bargaining, can be expected to result in an accumulated wage and salary differential.

Comprehensive literature reviews by Freeman (1986) and Lewis (1988) tend to confirm the appropriateness of these moderate, but non-negligible, collective bargaining effects on union/non-union wage differentials for all government employees in the public sector. These studies also report the effect of collective bargaining on fringe benefits to be at least as great or greater than on wage levels. Likewise, studies by Ichniowski (1980), Edwards and Edwards (1982), and Zax (1988) suggest that collective bargaining has a considerably larger impact on fringe benefit levels than on wage levels. Lewis (1990), in a survey of 75 studies which estimated union/non-union wage and benefit differentials for various levels of government and employee groups, concluded that the average differential in total compensation (wages + fringe benefits) was 8% to 12% for the public sector. [Although the majority of statistical studies involve local governments, studies involving federal and state governments indicate that the average wage differential for the federal government employees was less than for all governmental bodies, and that the differential for local governments was above the average for all levels of government. Lewis (1990) indicated that it was not unreasonable to conclude that the wage differential at the local government level was 10% to 15%, about as great as that for all U.S. wage and salary workers.]

Not considered here, but potentially very significant, are collectively bargained conditions of employment which are not included in the estimated wage and fringe benefit increases described above.

II. Seniority Provision: State funded educational institutions may incur additional costs related to provisions in the bill requiring decisions on reduction in force and rehiring to be based solely on classification seniority. While such provisions may alter the hiring decisions of employers, the precise fiscal impact is unknown and would depend upon the specific hiring decisions (and the wage levels of affected employees) that would have occurred without this provision.

III. Discipline and Dismissal Procedures: This bill establishes a three-step process for the discipline and discharge of employees of school corporations and state-funded educational institutions. The employer must give employees “reasonable time” to correct any problems prompting disciplinary action. If unsuccessful, an employer may suspend employees without pay and ultimately discharge them if no remediation has occurred. Employees may request a hearing by an IEERB-appointed hearing examiner at any time prior to discharge.

Non-certificated Employees: This bill directly impacts the state by requiring the IEERB to appoint a hearing examiner upon the written request by a noncertificated school employee subject to discharge. To comply with this provision, the Board may require additional funding between \$50,000 and \$100,000 annually for ad hoc services based on an estimated 100 cases per year.

State Educational Institution Employees: It is estimated that approximately 60,000 employees would be impacted by this legislation at Indiana's seven state educational institutions. Their inclusion could result in approximately 72 additional cases per year at a total cost of at least \$100,000 annually.

Any suspensions with pay under this legislation will increase the expenditures of a state educational institution if replacement employees are hired during the period of suspension. This bill may also increase administrative expenses to the extent that current discipline and dismissal policies at these institutions allow for more rapid action by the employer. The majority of state funding for these entities comes from the state General Fund.

IV. Start-up Costs: The board may require up to \$70,000 for temporary personnel and travel expenses for activities relating to the establishment of up to 304 noncertificated employee bargaining units throughout the state.

Explanation of State Revenues: Assuming that collective bargaining results in higher wages over time, state income tax revenues should increase.

Explanation of Local Expenditures: *I. Collective Bargaining:* Estimating the fiscal impact from the introduction of collective bargaining for noncertificated employees of school corporations is difficult mainly due to the lack of data and the existence of "spillover" effects from employee groups who already collectively bargain. According to the Indiana School Boards Association, around 39 school corporations currently participate in collective bargaining with their noncertificated employees. The approximate payroll of noncertificated school employees in Indiana for FY 1999 was about \$1.016 B.

Collective bargaining is not new to school corporations in Indiana. Teachers have been allowed to bargain collectively for several years. Since teachers and noncertificated school employees work side-by-side in the same buildings and have the same employers making the wage-setting decisions, some of the effect of teacher collective bargaining will have "spilled over" to the noncertificated personnel. School administrators and school boards are likely to be influenced by contract settlements with their teachers and by the competitive wage levels for comparable employees of neighboring school systems, some of whom may be under collectively bargained contracts. Because of these factors, it is difficult to project the magnitude of the increase in wages and benefits to these employees associated with the introduction of collective bargaining.

Since school corporations are largely dependent on property taxes whose growth is restricted by the state, increased wages and benefits may not result in increased tax collections. Instead, greater personnel costs may force reallocations from other areas in the school budget or result in a greater demand for state funds.

II. Seniority Provision: Additional costs to local school corporations may arise from provisions in the bill which require decisions on reduction in force and rehiring to be based solely on classification seniority. This provision may alter the hiring decisions of the employer. The fiscal impact is unknown and would depend upon the specific hiring decisions (and the wage levels of the employees affected) that would have occurred without this provision.

III. Discipline and Dismissal Procedures: Any suspensions with pay under this legislation may increase school corporation expenditures. To the extent that current discipline and dismissal policies at these institutions allow for more rapid action by the employer, this bill may increase administrative expenses. School corporation funding comes from local property taxes and the state and federal governments.

Explanation of Local Revenues: Counties with local option income taxes may also experience some additional revenue if collective bargaining results in higher wages over time.

State Agencies Affected: IEERB; state educational institutions.

Local Agencies Affected: School corporations.

Information Sources: Dennis Neary, Chairman, IEERB, 233-6620.
Patty Bond, State Department of Education, 232-0840.
Nelson Miller, Indiana School Boards Association 639-0330.